



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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Rural Development Texas AN No. 527 (3550)

January 21, 2000

SUBJECT: Section 502 Direct Leveraged Loans

TO: All Offices
Rural Development, Texas

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to clarify the processing responsibilities and actions to be taken by Rural Development employees on Section 502 Direct Leveraged Loans which are described in HB-1-3550, "Field Office Handbook", Chapter 10.

COMPARISON WITH PREVIOUS AN: This is AN replaces Rural Development Texas AN No. 499 which expired on November 30, 1998.

IMPLEMENTATION RESPONSIBILITIES: The actions listed on Exhibit A will be taken immediately by local office employees upon receipt of a Section 502 Direct Leveraged Loan application. Exhibit B will be used by employees in reviewing and processing leveraged loans. All borrowers receiving leveraged loans will sign Exhibit C.

A leveraged loan is a Section 502 Direct loan that is supplemented by a loan or grant from another funding source that is provided at the same time the agency loan is closed. Loans provided by a conventional funding source will be secured by a first lien mortgage, and Rural Housing Service loans will be secured by a second lien mortgage. Leveraging reduces the amount of funds that the agency must provide to help a borrower obtain adequate housing. This additional conventional funding source may be a private lender that provides home financing at conventional market rates, a state or local government agency, or a nonprofit organization that provides subsidized loans or grants.

Either the lender or Rural Development may originate applications for leveraged loans. If a lender originates an application, the lender may charge reasonable and customary fees based on the combined loan amount. Rural Development employees will encourage qualified applicants to participate in the leveraged loan program.

EXPIRATION DATE: December 31, 2000

FILING INSTRUCTIONS: SFH 3550
Field Office Handbook,
State Supplements

Since most private lenders sell their loans to Fannie Mae, the first mortgage loan to value ratios will not exceed fifty percent of the combined private lender and Rural Housing Service loan amount. In addition HB-1-3550, "Field Office Handbook," Chapter 10 states that the share of loan amount for the leveraged lender shall not be less than 20 percent for a leveraged loan. If the Eligibility Summary shows that the applicant would not be able to show repayment with a 20 percent leveraged loan, the Eligibility Summary should be printed and documented as to why the applicant was not advised to seek a leveraged loan.

FmHA Instruction 1940-L requires the State Director to maintain a reserve from the Section 502 Direct loan allocation to fund leveraged loans. This means that funds will be available for funding for any leveraged application from the state office reserve since they are not included in the area's allocation. In addition HB-3550, Chapter 3 states that applications which bring in outside resources will be given priority in processing and are classified in priority group 4.

Because leveraged loans are included in priority group 4, any applications will be processed immediately. These applications will be processed separately from applications that are to be processed with each quarterly Section 502 direct allocation. Exhibits A and B will be used by employees to process leveraged loan applications. Applicants will be required to sign the acknowledgement included in Exhibit C.

Leveraged Loans will be closed in accordance with RD TX Instruction 1927-B in the same manner as any other Section 502 Direct loan with the exception of Form RD TX 1927-8, "Agreement with Prior Lienholder." **NO LEVERAGED LOAN WILL BE CLOSED WITHOUT THE "AGREEMENT WITH PRIOR LIENHOLDER" BEING EXECUTED.**

Due to the emphasis placed on the processing of leveraged loans, local offices will contact local lenders to have them participate in the program. It is essential that all local offices obtain at least one lender, which will actively participate in this program. Local offices will utilize HB-1-3550 chapter 10, Attachment 10-C as an information source to be provided to the lender(s). If a lender requests a memorandum of Understanding (MOU) in accordance with HB-1-3550, Chapter 10, Attachment 10-B local offices will notify the State Office for preparation of the MOU.

Please contact Scooter Brockett or Leon Carey in the Single Family Housing Section if you have any questions.


STEVEN A. CARRIKER
State Director

Attachments

REQUIRED DOCUMENTATION TO PROCESS A LEVERAGED LOAN
This Documentation May Be Accepted From The Lender

- _____ Form FmHA 410-4 or Fannie Mae 1003 with Additional Information Required for FmHA Assistance (Pages 7 & 8 of Form FmHA 410-4)
- _____ Residential Mortgage Credit Report (RMCR) (obtained by the lender)
- _____ Verifications of income for every adult member of the household (obtained by the lender)
- _____ Verifications of Deposit (obtained by the lender)
- _____ Landlord verification (if applicable) (obtained by the lender)
- _____ If the applicant has selected a property, copy of sales contract and/or certified plans and specifications and all other development items required in FmHA Instruction 1924-A (obtained by the lender)
- _____ Appraisal which has been obtained by the lender in accordance with Rural Development Texas AN No. 524 (3550) dated January 5, 2000.

**PROCESSING GUIDELINE FOR LEVERAGED LOANS
ORIGINATED BY THE LENDER**

1. Review the origination package to ensure that all items required for a complete application and items listed in Exhibit A are included.
2. If the loan has been underwritten by the lender, check to see if the applicant has the required repayment ability for the proposed loan amounts. The local office will ensure that the proposed loan amounts comply with the required minimum 20 percent loaned by the lender as required in HB-1-3550 Chapter 10. The application should be prequalified in UniFi and the loan should be input (boarded) in UniFi. Pay special attention to the following steps:
 - a. In the Prequalification stage, on the "Section 502 Worksheet" the total of the RHS loan and the lender's loan should be entered on the Req Amt field in the Adjusted Terms column.
 - b. In APPLICATION stage, On the Registration screen you will show:
 - Only the amount that our Agency is loaning in the loan amount field.
 - The total sales price of the property (for non-construction loans).
 - The total appraisal.
 - If RHS will be in a subordinate lien position mark block "Loan is a Second Mortgage".
 - They do not have rescission rights.
 - The Priority code is 4 for a leveraged loan. (May change at a later date).
 - c. On the **New Application Additional Setup screen** show the Security Code as "Leveraged".
 - d. **Good Faith Estimate screen.** We still charge the \$95.00 tax service fee on leveraged loans. If the participating lender will escrow the loan do not complete the **GFE Escrow Screen**. You must still complete the **Reserves Deposited with Lender screen**.
 - e. On the **Details of Transaction screen** if RHS will be in a subordinate lien position, show the Leveraged Loan Amount on the **Other Credits screen**. If RHS will be in first lien position, show the Leveraged Loan amount in the Subordinate Financing field (line J).
 - f. Continue to complete all other screens to process the application.
 - g. **In FASTeller:** Be sure to use the Plan Type code (TYP/PRTCPN) "1"-New Participation code on the Leveraged Loan Payment Assistance (RHCDS/AGREEMENT/LOANS) screen.

3. If the package includes a sales contract for a specified property, the local office will make a site visit as required by HB-1-3550 7.18. If the property is acceptable and an appraisal was not submitted by the lender, the local office may order the appraisal. If the lender provides an appraisal, the local office will refer to Rural Development Texas AN No. 524 (3550) dated January 5, 2000.
4. A State Certified Inspector must inspect the dwelling in accordance with HB-1-3550 (5.7). The inspector may be contracted by the applicant or by the Lender. It is the responsibility of the Lender and Rural Development to review the findings of the inspection. Any defects or repairs noted in the inspection affecting the health, and safety of the residents or the security value of the property needs to be addressed in the property appraisal. There is no requirement that cosmetic repairs or deficiencies be corrected on existing houses.
5. After receipt of the appraisal and satisfactory review of the appraisal, the local office will schedule and hold the applicant orientation using form RD 3550-23 "Application Orientation Guide". As with any Section 502 Direct loan, the form RD 3550-23 will note the applicant's decision whether to finance or pay the allowable excess costs.
6. The local office will make any necessary changes to the loan information in UniFi and upload. This will include the indication of the approval of the loan in Stage Updating. After the successful upload, the local office will request that the loan be obligated. After the loan has been obligated, the local office will provide the applicant with RD form 3550-7 Mortgage Loan Commitment". After the applicant has signed RD Form 3550-7, the local office will provide the lender with a copy of the signed form.
7. Complete the In-1 Closing Select or Add Agent Screen in FASTeller and Fax the Pre-Audit Document FAX Checklist to the SFH section in the State Office along with all required forms.
8. Leveraged Loans cannot be closed without the execution of Form RD TX 1927-8 "Agreement with Prior Lienholder. The loan closing will be completed in accordance with FmHA instructions 1927-B and the supplementing RD Texas Instruction 1927-B. The loan closing agent will prepare and close the loan as they would any other Section 502 loan with the exception of the completed Form RD TX 1927-8 "Agreement with Prior Lienholder". This agreement will be executed by both the leveraged lender and Rural Development. An employee with loan approval authority will execute the form prior to providing the loan closing instructions and documents to the closing agent. The closing agent will complete the recording information and file the agreement.

9. Loan Closing instructions will include the requirement that the closing agent will provide the originating office and CSC with copies of all of the lender's security instruments (Promissory Note and Deed of Trust).

**STATEMENT TO BE SIGNED BY THE LEVERAGED APPLICANT(S)
AT THE TIME OF APPLICATION**

I (We) acknowledge that Rural Development's review and approval of this loan application is necessary and any approval of the loan is subject to the availability of Rural Development funds. I (We) also acknowledge that I (We) accept the terms, conditions, and fees of the conventional lender in connection with the proposed leveraged loan.

Date

Applicant

Co-Applicant